بسم الله الرحمن الرحيم

ISLAMIC BUSINESS ETHICS

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> *You are the best of peoples, evolved for mankind, enjoining what is right, forbidding what is wrong, and believing in Allah.* (Qur'an 3:110)

Every day, individuals face ethical issues at work, and rarely know how to deal with them. A recent review of articles published in the *Wall Street Journal* during only one week in 1991 uncovered a whole array of issues being faced by employees: stealing, lying, fraud and deceit, etc.[1] Surveys both in the USA and internationally reveal rampant unethical behavior in businesses. For instance, a recent survey of 2,000 major US corporations revealed that the following ethical problems (arranged in order of importance) concerned managers: (1) drug and alcohol abuse, (2) employee theft, (3) conflicts of interest, (4) quality control issues, (5) discrimination in hiring and promotion, (6) misuse of proprietary information, (7) abuse of company expense accounts, (8) plant closings and lay-offs, (9) misuse of company assets, and (10) environmental pollution.[2] Internationally, the ethical values of businesses are also deficient. In a survey of 300 companies across the world, over 85% of senior executives indicated that the following issues were among their top ethical concerns: employee conflicts of interest, inappropriate gifts, sexual harassment, and unauthorized payments.[3]

Is it naive for a Muslim businessman to behave ethically in a globally, competitive environment? The answer is a resounding NO! In Islam, ethics governs all aspects of life. The conditions for everlasting success or *falah* in Islam are the same for all Muslims–whether in conducting their business affairs or in carrying out their daily activities. Without specifying any situational context, Allah describes people who attain success as those who are "inviting to all that is good (*khayr*), enjoining what is right (*ma'ruf*) and forbidding what is wrong (*munkar*)."[4] Within a business context, however,

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[1] Cherrington, J. O. and Cherrington, D. J. 1993. "A Menu of Moral Issues: One Week in the Life of the *Wall Street Journal*." *Journal of Business Ethics*, 11, pp. 255-265.

[2] *America's Most Pressing Ethical Problems*. 1990. Washington, DC: The Ethics Resource Center, p. 1.

[3] Baumann, Mary. 1987. "Ethics in Business." *USA Today*. She was citing data from the Conference Board.

[4] *Qur'an* 3:104.

what specific standards of conduct should a company follow? What is a Muslim businessman's responsibility to internal and external stakeholders? Although a firm's top executives may exhibit exemplary ethical behavior, how can middle- and lower-level managers be encouraged to behave in a similarly ethical manner? What are some guidelines that would ensure consistent ethical behavior in a Muslim business?

Defining Ethics

Ethics may be defined as the set of moral principles that distinguish what is right from what is wrong. It is a normative field because it prescribes what one should do or abstain from doing. Business ethics, sometimes referred to as management ethics or organizational ethics, simply limits its frame of reference to organizations.

Within an Islamic context, the term most closely related to ethics in the Qur'an is *khuluq*.[5] The Qur'an also uses a whole array of terms to describe the concept of goodness: *khayr* (goodness), *birr* (righteousness), *qist* (equity), *'adl* (equilibrium and justice), *haqq* (truth and right), *ma'ruf* (known and approved), and *taqwa* (piety). Pious actions are described as *salihat* and impious actions are described as *sayyi'at*.[6]

Factors Influencing Ethical Behavior in Islam

What is considered ethical behavior may depend on the factors that define and affect ethical behavior. These factors have been identified in Figure 1.

Legal Interpretations

In secular societies, legal interpretations are based upon contemporary and often transient values and standards; in an Islamic society, these values and standards are guided by the Shari'ah and the collection of previous *fiqh* judgments. The result of these divergent approaches is amazing: at one time, it was legal and ethical in the United States to discriminate against women and minorities in hiring; now, affirmative action laws make it illegal to discriminate against these groups. By contrast, Islam has given women permanent and unalienable rights, and has never discriminated against minorities on any basis. For example, Abu Dharr reported that the Prophet (saaw) said to him,

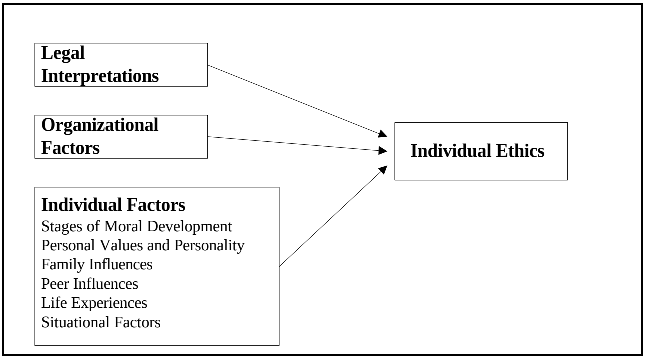
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[5] *Qur'an* 68:4. I thank Dr. Gamal Badawi for this suggestion.

[6] Fakhry, Majid. *Ethical Theories in Islam*. Leiden: E. J. Brill, 1991, pp. 12-13.

> *You are not better than people with red or black skins unless you excel them in piety.*[7]

Figure 1
Determinants of Individual Ethics[8]



Similarly, the Islamic ethical system does not endorse the *caveat emptor* concept that many Western courts have considered valid in several shadowy cases. Thus, Anas Ibn Malik reports the following hadith:

> *Allah's Messenger (peace be upon him) forbade the sale of fruits till they are almost ripe. Anas was asked what is meant by "are almost ripe." He replied, "Till they become red." Allah's Messenger (peace be upon him) further said, "If Allah spoiled the fruits, what right would one have to take the money of one's brother (i.e., other people)?"*[9]

The Hanafis' interpretation of Islamic law reinforces this emphasis on equity and fairness:

> *If the vendor sells property as possessing a certain desirable quality and such property proves to be devoid of such quality, the purchaser has the option of either canceling the sale, or of*

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[7] Abu Dharr, *Mishkat Al-Masabih*, 5198 and transmitted by Ahmad.
[8] Barney, Jay B. & Griffin, Ricky W. *The Management of Organizations*. © 1992 by Houghton Mifflin Company, p. 720. Adapted with permission.
[9] Anas ibn Malik, *Sahih Al-Bukhari*, 3.403.

accepting the thing sold for the whole of the fixed price. This is called option for misdescription.[10]

Organizational Factors

The organization too can affect influence participants' behavior. One of the key sources of organizational influence is the degree of commitment of the organization's leader to ethical conduct. This commitment can be communi-cated through a code of ethics, policy statements, speeches, publications, etc. For example, Xerox Corporation has a 15 page ethical code, one section of which states:

> *We're honest with our customers. No deals, no bribes, no secrets, no fooling around with prices. A kickback in any form kicks anybody out. Anybody.*

The above statement is clear and relates specific unethical behavior to negative consequences.

Codes of ethics are gaining in popularity in many organizations, and often vary from one industry to another. Although such codes may enhance ethical behavior among organizational participants, their use is sometimes inappropriate. Some organizations may be trading in or selling in *khamr* or other haram products or services; hence, the conduct of the whole organization is unethical. Developing and enforcing a code of ethics in this type of organization is clearly erroneous since Allah Subhanahu wa ta'ala has said in the Qur'an:

> *They ask you concerning wine and gambling. Say, "In them is great sin, and some profit for men; but the sin is greater than the profit."*[11]

In general, however, organizations engaged in *halal* businesses can foster ethical behavior through the development of an Islamic code of ethics.

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[10] *Al-Majalla* (The Ottoman Courts Manual [Hanafi]), Section II. Option for Misdescription, 310.

[11] *Qur'an* 2:219.

Individual Factors

Individuals come to work with different values. Factors affecting one's ethical behavior include: stages of moral development, personal values and morals, family influences, peer influences, and life experiences.

Stages of Moral Development. The Prophet (saaw) suggested that individuals undergo two stages of moral development: the minor or pre-pubescent stage and the adulthood stage. In a hadith narrated by Aisha (rah), she narrated that:

> *The Apostle of Allah (peace be upon him) said: 'There are three (persons) whose actions are not recorded: a sleeper till he awakes, an idiot till he is restored to reason, and a boy till he reaches puberty.'*[12]

From the above hadith, two facts can be inferred. First, certain types of people are not responsible for their behavior: the sleeper, the lunatic and the child before puberty. Second, an individual is not responsible for his actions until the age of reason.

In addition to physical and mental development, Islamic scholars[13] have suggested that there are three states or stages of the development of the human soul or *nafs*: (1) *ammara* (12:53), which is prone to evil, and, if not checked and controlled, will lead to perdition; (2) *lawwama*, (75:2), which feels consciousness of evil, and resists it, asks for Allah's grace and pardon after repentance and tries to amend; it hopes to reach salvation; (3) *mutma'inna* (89:27), the highest stage of all, when the soul achieves full rest and satisfaction after '*aql* (intellect) has checked the evil tendencies of man.[14] If a Muslim persists in behaving unethically, he is succumbing to the *ammara*; if he is behaving Islamically, he is fighting the evil impulses of the *ammara*, and responding to the directions of the *lawwama* and the *mutma'inna*. Of course, what will govern his ethical behavior and the interaction among these three states of the soul is his level of *taqwa* or piety. Depending on which level his *nafs* is at and whether he is winning or losing the battle against temptation and evil, he may be more or less prone towards behaving ethically.

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[12] Aisha, Ummul Mu'minin, Abu Dawud, 4384.

[13] Rizvi, S. A. *Muslim Tradition in Psychotherapy and Modern Trends*. Lahore, Pakistan: Institute of Islamic Culture.

[14] Ibid., pp. 50-51.

Personal Values and Personality. An individual's values and morals will also influence his or her ethical standards. A person who stresses honesty will behave very differently from another who does not respect other people's property. Interestingly, in Islam, the decay and eventual disappearance of honesty is a sign of the imminence of the Day of Judgment. Abu Hurayrah reports:

> *While the Prophet (peace be upon him) was saying something in a gathering, a Bedouin came and asked him, "When would the Hour (Doomsday) take place?" Allah's Apostle (peace be upon him) continued his talk, so some people said that Allah's Apostle (peace be upon him) had heard the question, but did not like what that Bedouin had asked. Some of them said that Allah's Apostle (peace be upon him) had not heard it.*
>
> *When the Prophet (peace be upon him) finished his speech, he said, "Where is the questioner, who inquired about the Hour (Doomsday)?" The Bedouin said, "I am here, O Allah's Apostle (peace be upon him)." Then the Prophet (peace be upon him) said, "When honesty is lost, then wait for the Hour (Doomsday)." The Bedouin said, "How will that be lost?" The Prophet (peace be upon him) said, "When the power or authority comes in the hands of unfit persons, then wait for the Hour (Doomsday)."*[15]

A key personality variable which may affect the ethical behavior of an individual is his/her locus of control. The locus of control of an individual affects the degree to which he perceives his behavior as influencing his life. An individual has an internal locus of control if he/she believes that he/she can control the events in his/her life. As a result, internals are likely to take responsibility for the outcomes of their behavior. Conversely, an individual with an external locus of control believes that fate or luck or other people affect his life. Such an individual is likely to believe that external forces cause him to behave either ethically or unethically. Overall, internals are more likely than externals to make ethical decisions, are less willing to cave

[15] *Sahih al Bukhari*, 1.56

in to pressure to behave unethically, and will resist hurting others, even when ordered to do so by a superior.[16]

Family Influences. Individuals start to form ethical standards as children. The Prophet (saaw) emphasized the importance of family nurturing when he said:

> *Command your children to pray when they become seven years old, and discipline them for it (prayer) when they become ten years old; and arrange their beds (to sleep) separately.*[17]

Here, the implication is that if you wish your children to grow up as good Muslims, you need to start shaping them from a young age. Children are likely to develop high ethical standards if they perceive other family members as consistently adhering to high standards, and if they are rewarded for ethical behavior but punished for being untruthful, stealing etc. Mixed messages from parents are likely to result in unethical behavior on the part of the child. An example of mixed messages is that of a child who is told that stealing is bad; at the same time, he is given supplies “borrowed” from the parents’ office at work.

Peer Influences. As children grow and are admitted to school, they are influenced by the peers with whom they interact daily. Thus, if a child’s friends engage in drawing graffiti, the child may imitate them. If the child’s peers avoid such behavior, the child is likely to behave accordingly.

Life Experiences. Whether positive or negative, key events affect the lives of individuals and determine their ethical beliefs and behavior. Malcolm X’s Hajj experience had a major impact on his later years as a Muslim:

> *There were tens of thousands of pilgrims, from all over the world. They were of all colors, from blue-eyed blonds to black-*

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[16] Lefcourt, H. M. *Locus of Control: Current Trends in Theory and Research*. Hillsdale, NJ: Erlbaum, 1982, 2d edition.

[17] Abdullah ibn Amr ibn al ‘As, Abu Dawud, 0495. In discussing this hadith with Dr. Gamal Badawi, he indicated that Islam is not for harsh “spanking” of children. They should, of themselves, wish to follow the role models presented by their parents and want to observe the regular prayers by age ten. If they do not, then light but appropriate discipline should be administered.

> *skinned Africans. But we were all participating in the same ritual, displaying a spirit of unity and brotherhood that my experience in America had led me to believe never could exist between the white and the non-white.*
>
> *America needs to understand Islam, because this is the one religion that erases from its society the race problem. [...] I have never before seen* sincere *and* true *brotherhood practiced by all colors together, irrespective of their color.*
>
> *You may be shocked by these words coming from me. But on this pilgrimage, what I have seen, and experienced, has forced me to* re-arrange *much of thought-patterns previously held, and to* toss aside *some of my previous conclusions.*[18]

Situational Factors. People may behave unethically in certain situations because they may see no way out. For example, a manager may record ficti-tious sales in order to cover losses within his area of responsibility. According to Islam, debt is a major reason why individuals behave unethically. In a hadith narrated by Aisha (raw),

> *Somebody said to [the Prophet], "Why do you so frequently seek refuge with Allah from being in debt?" The Prophet (peace be upon him) replied, "A person in debt tells lies whenever he speaks, and breaks promises whenever he makes (them)."*[19]

Since indebtedness is likely to lead to unethical conduct, Muslim lenders are encouraged to show leniency to debtors. At the same time, debtors are urged to repay debts promptly.

The Islamic Ethical System

The Islamic ethical system differs from secular ethical systems and from the moral code advocated by other religions. Throughout civilization, these secular models[20] assumed moral codes that were transient and myopic since

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[18] Haley, Alex. 1965. *The Autobiography of Malcolm X*. New York: Ballantine Books, p. 340.
[19] Aisha, *Sahih al Bukhari*, 1.795.
[20] Badawi, Jamal. *Islamic Teachings*. Halifax, NS Canada. Package II, series F, cassettes 1 and 2.

they were based on the values of their human founders, e.g., epicurianism or happiness for happiness's sake. These models generally proposed a system of ethics divorced from religion. At the same time, the moral code adopted by other religions have often stressed values that de-emphasize our existence in this world. For example, Christianity by its overemphasis on monasticism encourages its adherents to retire from the hustle and bustle of daily life. By contrast, the moral code embedded in Islamic ethics emphasizes the relation of man to His Creator. Because God is Perfect and Omniscient, Muslims have a code that is neither timebound nor biased by human whims.[21] The Islamic code of ethics is enforceable at all times because Its Creator and Monitor is closer to man than his jugular vein, and has perfect, eternal knowledge. To spell out Islam's moral code, we will now compare alternate ethics systems to the Islamic ethical system.

Alternate Ethics Systems

Contemporary ethics differs from the Islamic ethical system in multiple ways. Six ethical systems now dominate ethical thinking in general. These are summarized in Table 1.

END OF EXCERPT

[21] Loc. cit.

You may also contact the International Institute of Islamic Thought at:
(702) 471-1133 (ask for Brother Muhyiddin)

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